Please note that the commentary is for the retail class of the Fund.

Performance and positioning

The past year proved rewarding for investors willing to take on some risk as the combination of falling inflation and easier monetary policy contributed to higher ratings for stock markets. The strong showing of the so-called Magnificent Seven tech giants pushed the S&P 500 Index to record highs. The South African stock and bond market also had a stellar 12-month period, benefiting from a post-election rerating that was driven by the hope of better government. In this context, the Fund delivered a healthy return of 12%, handily outpacing its targeted return of CPI + 3%. Our longer-term performance track record continues to hold, with the Fund delivering first-quartile performance and delivering ahead-of-target returns over three, five and 15 years.

SA fixed income was the largest contributor to the Fund's returns over the past year. SA government bonds shone as they outperformed their emerging and developed market counterparts. Starting yields at the beginning of the year embedded a large risk premium, reflecting investor concern around both the outcome of our elections and the trajectory of the government's debt ratios in a lacklustre growth environment. The positive election outcome triggered a sharp downward move in local bond yields and delivered very strong returns for bondholders. We continue to think that a healthy exposure to SA fixed income is appropriate for our Fund given our real return mandate. Inflation remains well-behaved and is expected to stay close to the midpoint of the current target band. We do, however, remain cautious on the outlook for the government's debt burden and are managing longer-term risks in our allocation through a combination of containing duration and having a moderate exposure to inflation-linked bonds (ILBs) given their attractive valuation and offsetting risk attributes.

The Fund also benefited from its exposure to risk assets, in particular global and local equities. Global equity market indices were tricky to beat in the last year, given the concentration of returns in a handful of stocks. Nevertheless, we saw a broad opportunity set and believed that the stock-picking environment was fertile for the patient investor. Our global equity selection delivered excellent index-beating returns in the final quarter of 2024, proving that the positioning was correct. The Fund's 39% gross offshore allocation is still largely skewed towards equities, where we still observe robust return opportunities, notwithstanding elevated market index levels. We are mindful of downside risks, but believe this allocation provides necessary diversification for clients. We have also protected a portion of this allocation with relatively cheap put protection. Our 39% gross offshore exposure translates into a 32% net exposure after accounting for our currency lock position.

The rally in local equity markets was a welcome contribution to the Fund's returns. While market beta was supportive, our equity selection added to client returns. The Fund benefited from allocation to its rand hedge stocks (Naspers and British American Tobacco) as well as a carefully curated basket of SA equities. A combination of mid cap names (OUTsurance, PSG Konsult, Dis-Chem, Advtech, and Altron) delivered handsome absolute and relative returns in our SA equity allocation. Our selection of these local businesses was built with the view that these were well-managed businesses with robust business models, able to grow and take market share in a weak economy. These are also highly cash generative businesses – a further attraction for our Fund. From a valuation perspective, the domestic market has rallied from very cheap levels to a more normal and not yet expensive level. We continue to favour a large allocation to attractively valued rand hedge shares and remain selective on our domestic names. While the optimism over our election outcome is justified, this must now translate into higher economic growth for the equity rally to be sustained.

In this commentary, we have focused on the asset classes that contributed to most of the Fund's returns over the last year. It would be remiss of us not to mention that the smaller allocations in the Fund – namely SA property, SA cash, offshore cash and offshore fixed income – also contributed positively to returns. As a collective, these exposures provide beneficial diversification in the Fund and add to the robustness of portfolio returns.

Outlook

As we head into 2025, there is much to consider.

- On the global front, most of the current market commentary is focused on the policy pledges around tariffs, tax cuts and de-regulation from the incoming Trump administration. US exceptionalism has been a formidable feature of markets over the last year, and it remains to be seen if this can continue under the new administration. We are cognisant that starting equity market valuations in the US are elevated, and as such we do not anticipate another year of 20%+ returns from global stocks.

  The growth outlook has moderated as the US shifts from above-trend to a more normal growth trajectory and major economies such as Europe and China remain subdued.

  High levels of government debt in many developed economies are concerning. After the Global Financial Crisis of 2008/2009 and the Covid pandemic, most governments experienced soaring debt levels as they implemented expansionary fiscal policies to mitigate the shocks of these events. Debt servicing costs have become a burden to many governments, and tackling it by raising taxes and spending less is obviously an unpopular choice. Bond investors are rightly demanding higher yields from government debt. In the corporate credit space, spreads have compressed materially and provided a good source of return for our Fund. We are unlikely to see further compression from this level, limiting the potential return from global corporate credits to a still relatively healthy hard currency yield.

  The disinflation process seems to have stalled in many places as some of the easier downward pressures from falling energy prices and supply chain improvements have waned, and factors like fiscal policy, labour market slack and productivity have become more relevant. In 2025, the impact of potential US tariffs and retaliation risks add to inflation risk (and hurt growth prospects).

  Geopolitical tensions remain, and the vacuum in global leadership creates uncertainty.

- Domestically we will not escape the influence of these global risks. However, our local self-help narrative is a potential positive offset if we see the delivery and execution of sensible policy by our coalition government. The much-improved power supply is a promising sign that economic conditions could indeed improve. But we need to see improvements in other infrastructure areas, too, if we are to continue to experience a rich return environment in domestic asset classes.

We have managed this Fund in volatile and uncertain times, and we expect 2025 to be no different. Our success in delivering good client outcomes stems from our ability to work as an integrated team to identify the best investment opportunities and to act quickly to take advantage of them. We continue to be responsible stewards of your capital, primarily focusing on delivering on the targeted mandate return in a wide range of economic outcomes.

Portfolio managers
Pallavi Ambekar, Charles de Kock and Neill Young
as at 31 December 2024